

HARDING CARPETS LIMITED / Forty-ninth Annual Report October 31, 1976



Highlights

	Year Ended October 31 1976	Year Ended October 31 1975	Change from 1975
Sales	\$74,573,012	\$58,747,936	+27%
Net Income	2,964,324	2,129,325	+39%
Per Share	.58	.42	+38%
As a percentage of sales	4.0%	3.6%	+11%
As a percentage of capital employed ¹	9.9%	7.5%	+32%
As a percentage of shareholders' equity ²	14.4%	10.8%	+33%
Dividends paid to shareholders	\$.28	\$.28	—
Capital Expenditures	6,616,259	2,822,022	+134%
Working Capital	18,164,842	15,525,238	+17%
Ratio of current assets to current liabilities	1.8 to 1	1.7 to 1	
Shares outstanding			
Class A and Class B	3,494,400	3,482,250	—
Class C and Class D	1,611,672	1,611,672	—
Number of shareholders	3,185	3,151	+ 1%
Salaries, wages and employee benefits ³	\$18,656,729	\$16,068,794	+16%
Number of employees (average) ³	1,829	1,684	+ 9%

¹Capital employed represents total assets less current liabilities at beginning of year.

²Shareholders' equity at beginning of year.

³Figures for 1975 have been restated to include data of Venture Carpets of Canada Ltd for 12 months to provide an appropriate comparison.

The Annual Meeting of shareholders will be held on January 25, 1977, at the Royal York Hotel, Toronto, Ontario, beginning at 2:00 p.m.

Report to Shareholders

Significant Events in 1976

- Installation of the new rotary printer was completed and it was operating satisfactorily by year end, ready for its first full year of contribution to sales.
- The computerized on-line inventory information and order system was extended and we began servicing customers in eastern Canada from stocks in Toronto.
- Ground was broken and construction started on the first phase of building at the second manufacturing site in Brantford. The property covers 35 acres.
- Encouraged by studies of the floor covering market in the United States, the Company established a sales organization to serve the north-eastern states.

The Company achieved a significant increase in both sales and earnings in 1976, much of which can be attributed to the acquisition of Venture Carpets late in 1975. While the year started on a reasonably strong note, there was a slackening in demand at the retail level in the latter part of our fiscal year.

In spite of the fact that over the past year the increase in incomes has exceeded the increase in the cost of living, there is a lack of confidence on the part of consumers. There has been a lack of growth in the goods producing sector since spring. The unemployment rate has continued to increase to the highest on record for many years. The inventory of unsold houses will curtail housing starts in the year ahead. All these point to the fact that economic growth has stalled and the recovery will be slower than expected.

During the year the Company took important steps to provide for future growth of its operations, and these are highlighted under the Significant Events in 1976 listed on this page and covered in more detail in this report. The acquisition of Venture Carpets of Canada Ltd. in 1975, has proven to be a sound and profitable investment. As a result of the association with Harding Carpets Limited, it has been possible to develop export business and to increase their sales in Canada.

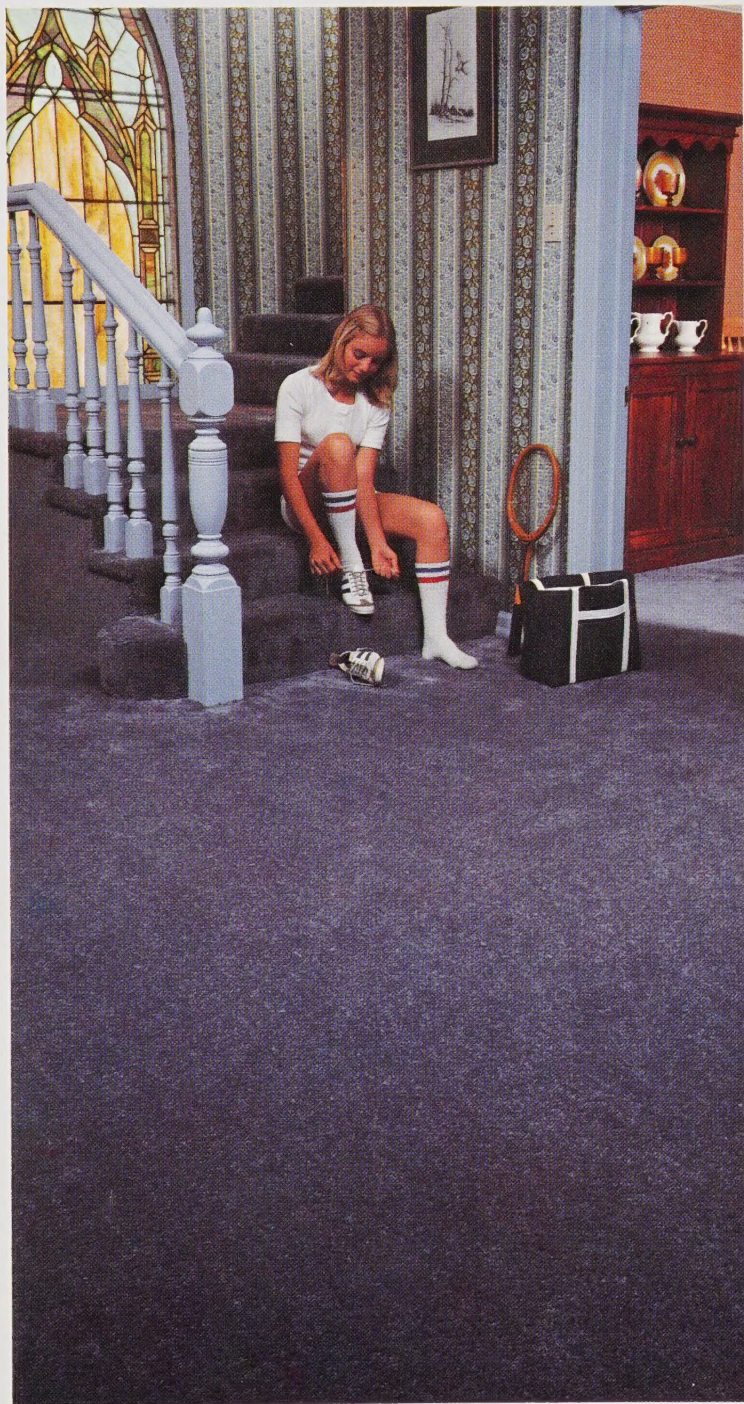
We continue to have a positive outlook for the Company. We look for an increase in sales in Canada and have taken steps to expand our export volume.

Income and Dividends

Net income for the year amounted to \$2,964,324, an increase of 39% over the previous year. Earnings per share were 58¢ compared to 42¢ in 1975. Earnings of Venture Carpets are included for the full year compared to only two months in the previous year. *reflects*

for 1977? → Earnings per share of 15¢ in the fourth quarter were down from 24¢ reported in the same quarter last year. Fourth quarter sales were well below expectations, leading to production cutbacks and the underabsorption of overhead costs. Operation of the new rotary printer was delayed, causing larger than expected start-up costs which were absorbed in the fourth quarter.

Deferred income taxes increased by \$827,753 during the year to reach \$6,132,846 at year end. The accelerated capital cost



High Society is a new Harding Carpets saxony plush broadloom of luxurious depth. It is available in 12 stock-dyed colours and is easy to care for. The pile is 100% Acrilan.

allowance provided under federal income tax legislation is the primary source of deferred income taxes. The deferment of taxes provides funds which facilitate financing of the Company's capital expenditures.

Kurt Salmon Associates, management consultants, recently published the results of an analysis of 107 publicly owned companies in the textile industry in Canada and the United States. Over the five years ended with 1975, Harding Carpets rated first in the ratio of net income after tax as a percentage of sales, second in operating margin, and fourth in return on equity and return on committed funds.

Dividends of 28¢ per share were paid during the year on the same basis as in 1975. A dividend of 7¢ has been declared payable January 2, 1977.

Sales

Sales reached ^{an all time high} of \$74,573,012, up 27% over the previous year. It should be noted that sales of Venture Carpets were included for the full year compared to only two months in 1975. Excluding Venture Carpets, sales were 7% over the previous year.

Export sales were approximately the same as last year in total. Shipments to Australia were lower but offset by increases to Europe and the Middle East. Following studies of the floor covering market in the United States, the Company moved in the fourth quarter to establish a sales organization based in New Jersey. Initial reaction is encouraging, and we expect the United States market will contribute to our export volume in 1977. We will continue our efforts to expand sales in those markets where we are already established.

Seneca Carpet Mills achieved a 35% increase in volume and at the same time carried out a complete realignment of its independent distributors. With firmly established distributors from coast to coast and an improved product line, the Seneca Division is looking for further expansion in 1977.

Venture Carpets, the Company's wholly-owned subsidiary in Drummondville, Quebec, distributes its products through independent distributors across Canada as well as directly to major retailers. Venture enjoyed excellent growth in 1976 by increasing its share of the Canadian market and from sales generated through Harding's Export Division. Venture will continue to market its products under the Venture label

and supply space dyed products to the Harding Division for marketing under the Harding brand.

The Company now has established a strong marketing base with three separate distribution channels marketing three separate brands of carpets—Harding, Seneca and Venture. The Company is in a good position to take advantage of any improvement in the economy and particularly in consumer spending on durables. The full product line is offered in our export markets.

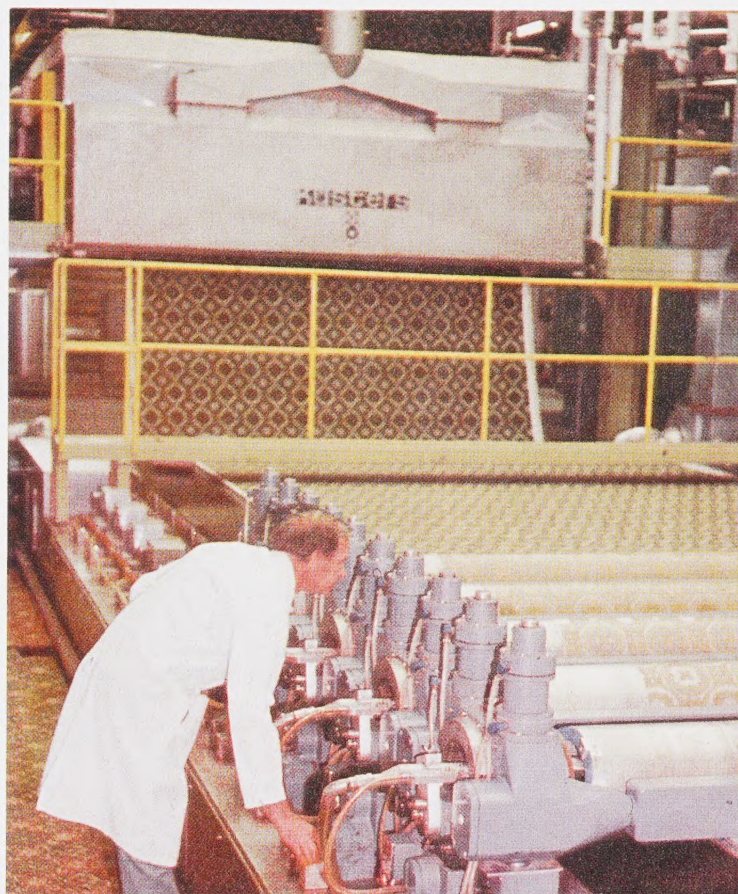
To meet the growing need for new products in all areas, the Company is expanding its research and product development staff. Technical developments by this group have enabled us to achieve many styling innovations so vital for maintaining industry leadership.

During the fourth quarter the servicing of customers in eastern Canada was centralized in Toronto with the result that Montreal and Moncton distribution centres now serve as satellite warehouses and carry a limited inventory. By making most effective use of our computerized on-line inventory information and order system, we have been able to shorten the delivery time and reduce the inventory required to service eastern Canadian customers.

Carpet Market

For the calendar year 1975, the market for carpets in Canada shows a decline of 1%. During the latter part of 1975 and through the first six months of 1976, the market showed a slight recovery but fell far short of long term growth performance. Since July, demand fell below the levels of the previous year with the result that the normal peak autumn selling season was well under expectations. Furniture and major appliances experienced a similar downturn during the period.

For the ten years up to 1975, the carpet market in Canada, expressed in square yards, expanded at an average annual rate of 15% compounded. Such a rate is not expected to continue in the future, but the growth of the carpet market should still be above the normal peak autumn selling season was well under expectations. Furniture and major appliances experienced a similar downturn during the period. Despite its ten year average rate of increase, the industry has now experienced two years of marginal growth, reflecting the sluggish state of our economy in Canada. There should be, therefore, an accumulated demand for carpets that has yet to be satisfied. The replacement market also is



The new Mitter rotary carpet printer began operation during the year. Construction also started at the second manufacturing site in Brantford.

growing, in the home and in commercial and institutional establishments. Both these factors, together with a return to a more progressive economy, will provide impetus to our industry.

Carpet imports in 1975 increased by 5% in yardage and represented 14.6% of the Canadian market. Shipments from the United States were up 24% and represented approximately 75% of total imports. There are indications that imports from the United States may be down slightly in 1976.



Cabretta is the name of this Mitter Loop Print available in five different colour combinations from Seneca Carpet Mills. Its 100% Nylon pile is treated with Scotchgard and 3M Static Control.

Financial Resources

The Statement of Changes in Financial Position on Page 9 shows that working capital increased by \$2,639,604. During the year, additional financing was arranged through the private placement of \$5,500,000 Series E, 11 $\frac{3}{8}$ % 1994 Sinking Fund Debentures. The increase in deferred income taxes of \$827,753 contributed to the improvement of working capital.

Inventories of \$22,126,449 show an increase of \$5,693,124 over the previous year end. The year 1976 opened with low inventories and ended with levels higher than normal due to slow market conditions in the fourth quarter. Manufacturing operations are being curtailed in order to bring inventories more in line with business conditions.

Capital Expenditures

Capital expenditures in the past year of \$6,616,259 included the new rotary printer, office additions in Brantford and Drummondville, an addition to the Toronto distribution centre and initial work on the new plant in Brantford. The new rotary printer began operation late in September, three months later than intended. By year end it was operating satisfactorily and will be able to make a significant contribution to sales in the coming year.

Capital additions in 1977 will be lower at \$4,500,000, representing the balance of the new plant and additions to tufting and yarn processing capacity at Venture Carpets. Expenditures also are planned for energy conservation and for the treatment of water and air effluent to avoid pollution.

Personnel

The average number of employees throughout the year was 1,829, but by year end employment was down to 1,700 due to curtailment of production.

Five union contracts were negotiated in 1976 and two more, covering employees at Guelph and Drummondville, are due to expire in the coming year.

The Company contributed \$561,833 to Company and government pension plans for the benefit of employees. This sum included amounts to improve both past service for employees and the pensions of retired employees.

Following the close of the year, Mr. Norman J. Bell, C.A., joined the Company and was appointed Vice President, Administration. Mr. Bell previously held a senior position in a major company serving the packaging industry.

Despite the effect of the economy and other circumstances, your Company has fared reasonably well during the year compared to other companies, both within and outside our industry. The efforts of our employees and the continued support of our customers and suppliers have contributed significantly to this performance. To all of them, the Board expresses its appreciation.

Annual Meeting

The annual meeting of shareholders will be held on Tuesday, January 25, 1977 at 2:00 p.m., at the Royal York Hotel, Toronto. The officers and directors welcome this opportunity to meet with shareholders and to report further on the progress of the Company.

On behalf of the Board,

Chas. Harding Davidson

Chairman of the Board

President

December 20, 1976

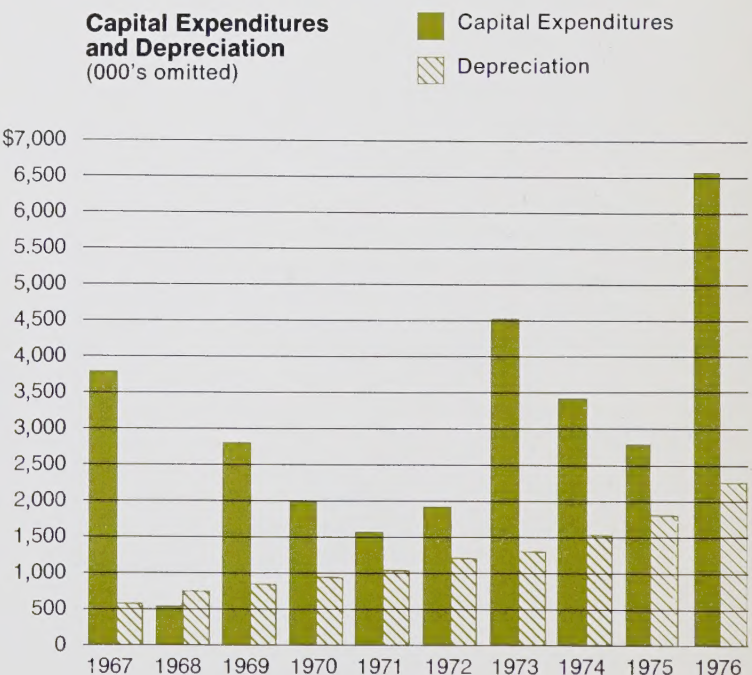
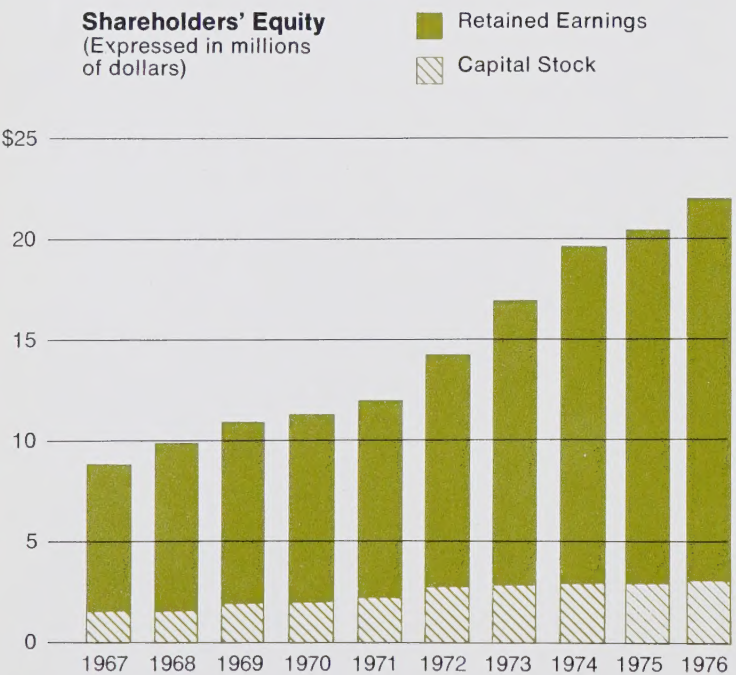
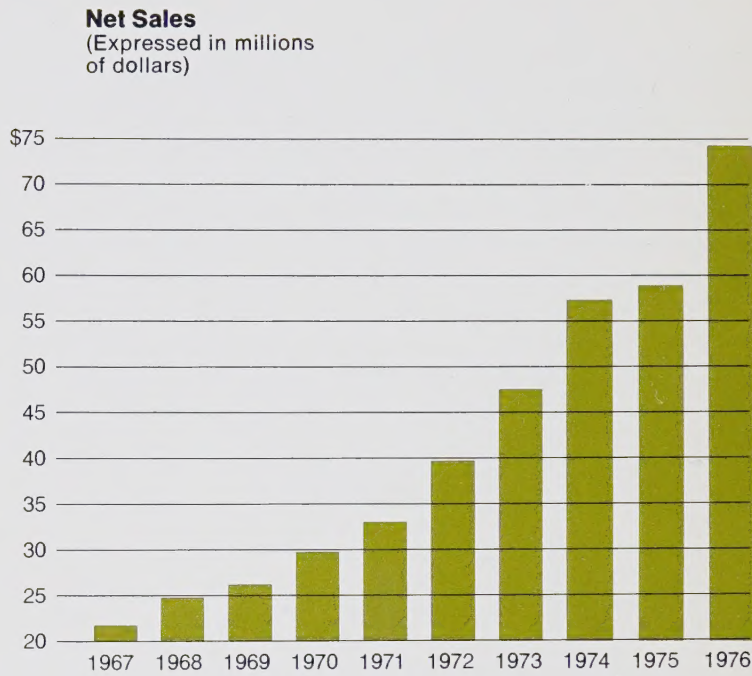
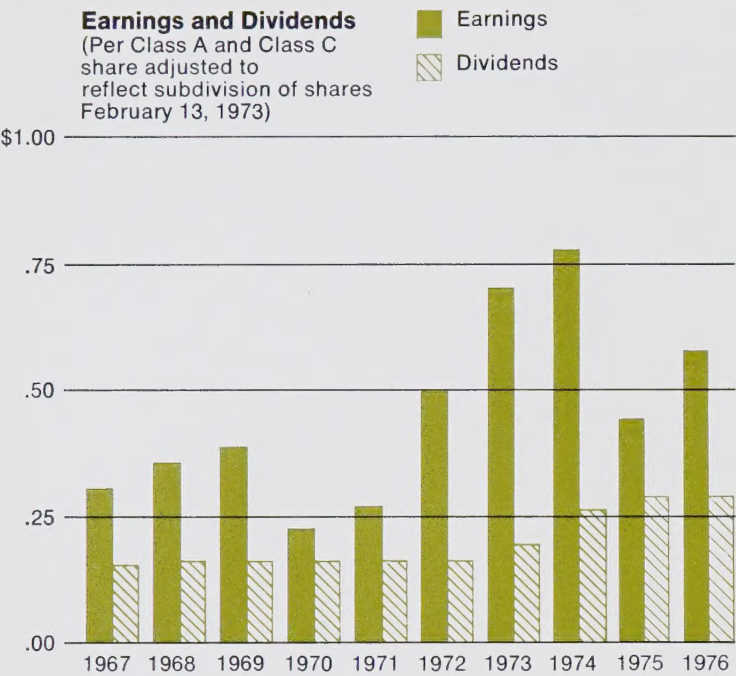
Canadian Market

*(estimated)

	Total Square Yards (000's)	Percentage of total supplied by Canadian Mills	Consumption per Household (square yards)			Canadian Per Capita Personal Disposable Income
			Canada	U.K.	U.S.A.	
1966	23,525	88.4	4.50	5.05	7.26	1,994
1967	25,355	88.7	4.65	5.42	7.53	2,116
1968	31,193	87.4	5.54	5.84	8.60	2,262
1969	38,369	88.2	6.66	5.68	9.68	2,407
1970	38,766	90.0	6.57	6.18	10.21	2,535
1971	47,720	90.1	7.90	6.87	10.89	2,749
1972	64,509	89.1	10.10	7.98	13.31	3,057
1973	77,501	87.6	11.83	8.31	13.98	3,501
1974	84,611	86.1	13.26	7.56	12.51	3,980
1975	83,891	85.3	12.66	8.29	10.83	4,734
% Increase (Decrease)						
1966-1975	256.6%	(1.6%)	181.3%	64.2%	49.2%	137.4%

*Exports & Automotive Carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.

Indicators of Company Growth



These charts reflect the Company's progress over the 10-year period ending October 31, 1976.

Consolidated Statement of Income and Retained Earnings

	Year Ended October 31 1976	Year Ended October 31 1975
Sales	\$74,573,012	\$58,747,936
Cost of Sales	55,581,679	44,459,022
Gross Profit From Operations	18,991,333	14,288,914
Deduct the following items:		
Selling, administrative and distribution expense	11,507,692	9,027,412
Interest on long term debt	1,474,511	1,160,277
Other interest	1,199,024	419,487
	14,181,227	10,607,176
Income Before Taxes	4,810,106	3,681,738
Taxes on Income	1,845,782	1,552,413
Net Income for the year	2,964,324	2,129,325
Add: Retained Earnings at beginning of year	17,422,504	16,713,203
	20,386,828	18,842,528
Less: Dividends paid and related taxes thereon	1,445,878	1,420,024
Retained Earnings at end of year	\$18,940,950	\$17,422,504
Earnings per share	\$.58	\$.42

Consolidated Balance Sheet

Assets	October 31 1976	October 31 1975
Current		
Accounts receivable, less allowance for doubtful accounts	\$17,890,182	\$19,987,963
Inventories (Notes 1 (b) & 2)	22,126,449	16,433,325
Prepaid expenses	682,306	452,087
Total Current Assets	40,698,937	36,873,375
Fixed (Notes 1 (c) & 3)		
Land, buildings and equipment	41,869,105	36,917,075
Less: Accumulated depreciation	14,365,273	13,465,043
	27,503,832	23,452,032
	\$68,202,769	\$60,325,407
Liabilities		
Current		
Bank advances	\$12,488,495	\$10,631,137
Accounts payable and accrued liabilities	8,739,645	9,085,842
Income taxes payable	101,953	547,552
Instalments on long term debt due within one year	1,204,002	1,083,606
Total Current Liabilities	22,534,095	21,348,137
Long Term Debt (Note 4)	17,430,011	13,134,013
Deferred Income Taxes (Note 1 (d))	6,132,846	5,305,093
Shareholders' Equity		
Capital Stock (Notes 5 and 6)	3,164,867	3,115,660
Retained Earnings	18,940,950	17,422,504
	22,105,817	20,538,164
	\$68,202,769	\$60,325,407

Approved by the Board,

C. Harding
Director

A. Davidson
Director

Harding Carpets Limited
and subsidiaries

Consolidated Statement of Changes in Financial Position

	Year Ended October 31 1976	Year Ended October 31 1975
Financial Resources Were Provided By		
Operations—		
Net income for the year	\$ 2,964,324	\$ 2,129,325
Charges not involving a current outlay of funds:		
Depreciation	2,284,218	1,815,740
Deferred income taxes	827,753	424,554
	6,076,295	4,369,619
Issue of capital stock (Note 6)	49,207	63,171
Issue of Series E debentures	5,500,000	—
Fixed asset disposals	280,241	102,125
	11,905,743	4,534,915
Financial Resources Were Used For		
Expenditures on fixed assets	6,616,259	2,822,022
Dividends paid and related taxes thereon	1,445,878	1,420,024
Reduction in long term debt	1,204,002	748,133
Acquisition of Venture Carpets of Canada Ltd. net of working capital acquired	—	3,246,837
	9,266,139	8,237,016
Increase (Decrease) in working capital	2,639,604	(3,702,101)
Working capital at beginning of year	15,525,238	19,227,339
Working capital at end of year	\$18,164,842	\$15,525,238

Notes to Financial Statements

Year Ended October 31, 1976

Note 1—Accounting Policies

(a) *Principles of Consolidation*—The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly owned.

(b) *Inventories*—Inventories of raw materials and goods in process are valued at the lower of cost and replacement cost and inventories of finished goods at the lower of cost and net realizable value, all consistent with prior years.

(c) *Fixed Assets and Depreciation*—Fixed assets are stated at cost. Cost includes freight and installation charges where applicable. Depreciation charged on the books is based on straight line rates of 2½% for buildings and 9% for machinery and equipment. Gains and losses on disposal of fixed assets are included in earnings and the costs and accumulated depreciation related to these assets are removed from the accounts.

(d) *Income Taxes*—Deferred taxes arise as a result of claiming for income tax purposes maximum capital cost allowances which have been in excess of depreciation recorded in the accounts. Federal investment tax credits are recognized as a reduction of income taxes when earned.

(e) *Earnings Per Share*—Earnings per share are calculated based on the weighted monthly average of the number of shares outstanding during the year or the lesser period under review in the case of quarterly reporting.

(f) *Other Significant Policies*—Research and development cost, development of new products, advertising, sales promotion and systems development expenses are charged against income as incurred.

Note 2—Consolidated Inventories

	1976	1975
Raw Materials	\$ 2,449,822	\$ 1,788,641
Goods in Process	6,827,732	5,334,457
Finished Goods	12,848,895	9,310,227
	<u>\$22,126,449</u>	<u>\$16,433,325</u>

Note 3—Consolidated Fixed Assets

	1976		1975	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 934,284	\$ —	\$ 637,322	\$ —
Buildings	14,872,004	3,108,317	13,369,253	2,797,610
Machinery & Equipment	26,062,817	11,256,956	22,910,500	10,667,433
	<u>\$41,869,105</u>	<u>\$14,365,273</u>	<u>\$36,917,075</u>	<u>\$13,465,043</u>

The Company entered into contracts for fixed asset purchases, for delivery in 1977, totalling \$2,333,000.

Note 4—Long Term Debt

(a) Secured by a floating charge in favour of the debenture holders.

Series A, 6% 1984	\$2,300,000
The sinking fund requirements call for payments of \$200,000 per year, leaving a balance of \$900,000 due in 1984.	
Series B, 6% 1987	1,660,000
The sinking fund requirements call for payments of \$105,000 per year, leaving a balance of \$610,000 due in 1987.	
Series C, 8% 1992	2,825,000
The sinking fund requirements call for payments of \$125,000 per year through 1986 and \$155,000 per year from 1987 through 1991, leaving a balance of \$800,000 due in 1992.	
Series D, 10% 1994	5,770,000
The sinking fund requirements call for payments of \$230,000 per year from 1976 through 1988 and \$290,000 per year from 1989 through 1993 leaving a balance of \$1,560,000 due in 1994.	
Series E, 11% 1994	5,500,000
The sinking fund requirements call for payments of \$210,000 per year from 1977 through 1988 and \$265,000 per year from 1989 through 1993 leaving a balance of \$1,655,000 due in 1994.	
	<u>\$18,055,000</u>

The Trust Indentures underlying the outstanding debentures contain covenants which place limitations on the payment of dividends. The amount of consolidated retained earnings free from restriction as of October 31, 1976 was \$1,816,714. This amount will increase if future earnings exceed dividends distributed to shareholders.

(b) Long term debt of subsidiary, Venture Carpets of Canada Ltd., secured by fixed and/or floating charges on its fixed assets, incurred prior to acquisition September 1, 1975, at interest rates varying from 8 to 11¾% requires principal payments of \$334,006, \$120,000 and \$45,007 in each of the years 1977 to 1979 respectively and \$20,000 in each of the years 1980 to 1984.

	579,013
	<u>\$18,634,013</u>
Less instalments due within one year	1,204,002
	<u>\$17,430,011</u>

Note 5—Capital Stock

	Authorized	Issued and Outstanding
Class A and Class B non-voting, interconvertible shares with a par value of 16 $\frac{2}{3}$ ¢	6,000,000	3,494,400
Class C and Class D voting, interconvertible shares without par value	2,999,000	1,611,672
Common shares without par value	1,000	—
	<u>9,000,000</u>	<u>5,106,072</u>

Class B and Class D shareholders may receive dividends out of tax paid undistributed surplus on hand and 1971 capital surplus on hand. These dividends will be an amount equivalent to the dividends paid on Class A and Class C shares less applicable taxes, if any.

The Valuation Day price for the Class A and Class B shares is \$4.83 and for the Class C and Class D shares is \$4.96.

Note 6—Employees' Stock Options

Options for 12,150 Class A shares were exercised during the year ended October 31, 1976 for a cash consideration of \$49,207. Options for 80,700 Class A shares and 2,400 Class C shares were granted to staff members during the year. Options outstanding October 31, 1976 were as follows:

Expiration Date of Options	Class A		Class C	
	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
Nov. 9/76	58,000	\$6.6375	2,400	\$6.75
Nov. 8/77	49,250	4.05	—	—
Nov. 7/83	75,700	4.095	2,400	3.825
	<u>182,950</u>		<u>4,800</u>	

Options outstanding October 31, 1976 do not vary significantly the diluted share earnings from reported share earnings.

Note 7—Directors' and Senior Officers' Remuneration

Remuneration to directors and senior officers totalled \$596,000 for 17 persons during the year ended October 31, 1976 (16 persons—\$483,000 in 1975).

Note 8—Pensions

In 1948, the Company introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. The Plan is contributory and the liability for past service is not significant.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trusteesd plan which is paid for completely by the Company and has to date been mainly invested in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows:

	Company Net Contributions	Employee Net Contributions
Employees' Pension Plan	\$3,006,018	\$2,488,728
Canada Pension and Quebec Pension Plan	1,187,308	1,187,308
Deferred Profit Sharing Plan*	527,402	—
	<u>\$4,720,728</u>	<u>\$3,676,036</u>

*The market value of the Deferred Profit Sharing Plan fund at October 31, 1976 was \$743,967.

The cost to the Company of the Pension Plans in 1976 was \$561,833 (1975—\$512,659). No contributions were made to the Deferred Profit Sharing Plan in either year.

Note 9—Anti-Inflation Program

The Company and its subsidiaries are subject to controls on prices, profits, dividends and compensation instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company believes it has complied with the guidelines since their announcement.

Auditors' Report

TO THE SHAREHOLDERS OF HARDING CARPETS LIMITED:

We have examined the consolidated balance sheet of Harding Carpets Limited and its subsidiaries as at October 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

Toronto, December 7, 1976.

Ten Year Financial Summary

(000's omitted)

Year Ended October 31

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Operating Results										
Sales	\$74,573	\$58,748	\$57,339	\$47,683	\$40,076	\$32,967	\$30,035	\$26,842	\$24,958	\$22,040
Depreciation	2,284	1,816	1,566	1,311	1,253	1,053	975	889	765	609
Interest	2,674	1,580	1,422	876	761	836	888	514	624	434
Income before taxes	4,810	3,681	6,832	6,313	4,706	2,539	2,013	3,651	3,238	1,776
Income taxes	1,846	1,552	2,907	2,774	2,195	1,240	960	1,814	1,545	366
Net Income¹	\$ 2,964	\$ 2,129	\$ 3,925	\$ 3,539	\$ 2,511	\$ 1,299	\$ 1,053	\$ 1,837	\$ 1,693	\$ 1,410
Per Share ²	.58	.42	.77	.70	.50	.27	.22	.38	.36	.30
As a percentage of sales	4.0%	3.6%	6.8%	7.4%	6.3%	3.9%	3.5%	6.8%	6.8%	6.4%
As a percentage of capital employed	9.9%	7.5%	15.7%	15.2%	13.4%	7.4%	6.3%	10.6%	10.6%	13.6%
As a percentage of shareholders' equity	14.4%	10.8%	22.9%	24.5%	20.7%	11.4%	9.6%	18.3%	18.8%	17.0%
Dividends Paid	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960	\$ 796	\$ 776	\$ 770	\$ 765	\$ 755	\$ 723
Per Share ²	.28	.28	.26	.19	.16	.16	.16	.16	.16	.15
Retained Earnings for Year	\$ 1,518	\$ 709	\$ 2,596	\$ 2,579	\$ 1,715	\$ 523	\$ 283	\$ 710	\$ 938	\$ 687
Other Financial Data										
Capital Expenditures	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534	\$ 1,923	\$ 1,624	\$ 2,025	\$ 2,887	\$ 566	\$ 3,777
Working Capital	18,165	15,525	19,227	11,875	12,086	8,311	8,240	8,972	10,213	8,563
Ratio of current assets to current liabilities	1.8 to 1	1.7 to 1	2.7 to 1	1.9 to 1	2.5 to 1	1.7 to 1	1.7 to 1	1.9 to 1	3.5 to 1	2.7 to 1
Inventories	\$22,126	\$16,433	\$16,617	\$13,175	\$10,606	\$11,396	\$11,274	\$11,324	\$ 8,359	\$ 7,427
Fixed Assets (net)	27,504	23,452	17,933	16,223	13,227	12,626	12,209	11,212	9,235	9,559
Long term debt	17,430	13,134	13,215	7,645	8,075	5,791	6,312	6,824	7,095	7,600
Shareholders' Equity	\$22,106	\$20,538	\$19,766	\$17,113	\$14,427	\$12,116	\$11,407	\$10,961	\$10,034	\$ 8,992
Shareholders' Equity per share ²	4.33	4.03	3.89	3.38	2.86	2.48	2.37	2.29	2.12	1.90

¹ The net income for the years 1965 to 1973 has benefited under designated area legislation. For the years 1965 to 1967 taxation was reduced and from 1967 to 1973 income included grants for the Collingwood plant. Net income in 1969 is shown before extraordinary item less applicable income taxes representing national distribution start-up costs.

² Adjusted to reflect subdivision of each common and Class A share on February 11, 1967, and each common and Class A share on February 13, 1973.

Directors and Officers

Directors

Ralph M. Barford
Chairman of the Board
GSW Limited/Limitée

Albert Davidson, C.A.
President
Harding Carpets Limited

J. Douglas Gibson, O.B.E.
Chairman of the Board
Consumers' Gas Company Limited

Anthony F. Griffiths
Chairman and Chief Executive Officer
Canadian Cablesystems Limited

C. Malim Harding, O.B.E.
Chairman of the Board
Harding Carpets Limited

John D. Harrison, Q.C., M.B.E.
Partner
Harrison, Elwood

Frank D. Lace, D.S.O., O.B.E.
Partner
A.E. Ames & Co.

J. Donald Mingay, D.S.O., M.B.E.
Management Consultant

William H. Young
President
The Hamilton Group Limited

Officers

C. Malim Harding
Chairman of the Board

Albert Davidson
President

J. H. Brian Daniels
Vice-President & General Manager
Seneca Carpet Mills Division

Philip L. Guit
Vice-President, Manufacturing

William C. McAllister
Vice-President, Distribution

Norman J. Bell
Vice-President, Administration

William D. L. Sherren
Vice-President
Styling and Product Development

Colin K. Thompson
Vice-President
Industrial Relations and Personnel

John G. Urquhart
Vice-President and General Manager
Harding Carpets Division

Albert F. Klinkhammer
Secretary-Treasurer

Stock Exchange Listings

Toronto, Montreal and Vancouver

Transfer Agent and Registrar

Montreal Trust Company,
Toronto, Montreal, Regina,
Calgary and Vancouver

Bankers

The Royal Bank of Canada
The Toronto-Dominion Bank

Shareholders' Auditors

Price Waterhouse & Co.

Venture Carpets of Canada Ltd.

René L. Germain
Executive Vice-President
and General Manager

Offices

Head Office
Morrell Street, Brantford, Ontario N3T 5R3

Executive Office
60 Yonge Street, Toronto, Ontario M5E 1H5

Harding Carpets Division Office
35 Worcester Rd., Rexdale, Ontario M9W 1K9

Seneca Carpet Mills Office
60 Yonge Street, Toronto, Ontario M5E 1H5

Venture Carpets of Canada Ltd. Office
1600 Janelle Street, Drummondville, Quebec J2B 6V6

Export Division Office
Morrell Street, Brantford, Ontario N3T 5R3

Australian Office
169 Miller Street, North Sydney, N.S.W. 2060

United States Office
10 Taft Court, Totowa, N.J. 07512

Harding Distribution Centres

Vancouver—4616 Canada Way, North Burnaby, B.C. V5G 1K7
Calgary—3030-9th Street, S.E., Calgary, Alberta T2G 3B9
Winnipeg—1555 Inkster Boulevard, Winnipeg, Manitoba R2X 1R2
Toronto—35 Worcester Road, Rexdale, Ontario M9W 1K9
Montreal—1475 Montee de Liesse, St. Laurent, Quebec H4S 1J7
Moncton—1220 St. George Boulevard, Moncton, N.B. E1C 8R9

Seneca Carpet Distributors

Quebec & Atlantic—Greenshields, Hodgson, Racine, Ltd.
Ontario—Laing Carpet Distributors Limited
Western—Triple "C" Floorings Ltd.

Venture Carpet Distributors

Newfoundland—Steers Ltd.
Atlantic—Alliance Distributors Ltd.
Quebec—Richelieu Flooring Distributors Inc.
Ontario—Laing Carpet Distributors Limited
Prairies—Primco (Western) Limited
British Columbia—Cavco Carpet Distributors Ltd.

Manufacturing Facilities

Brantford, Collingwood, Guelph & Drummondville

On peut obtenir un exemplaire en français de la lettre que le
Président du Conseil et le Président ont adressée aux actionnaires
en écrivant au Secrétaire de la Compagnie.

ÉTAT CONSOLIDÉ DU REVENU

(non vérifié)

	Trimestre clos le		Changement par rapport à 1975
	1er mai 1976	3 mai 1975	
VENTES	\$19,313,961	\$14,207,966	35.9%
COÛT DES VENTES	14,316,616	11,309,241	
PROFIT BRUT D'EXPLOITATION ..	4,997,345	2,898,725	72.4%
À DÉDUIRE			
Frais de ventes, de gestion et de distribution	2,816,850	2,178,774	
Intérêts sur débetures	298,084	286,251	
Intérêts divers	325,811	92,733	
	3,440,745	2,557,758	
PROFIT avant impôts sur le revenu	1,556,600	340,967	356.3%
Impôts sur le revenu	664,751	144,000	
REVENU NET pour la période	\$ 891,849	\$ 196,967	352.3%
Bénéfices par action	17¢	4¢	352.0%

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

(non vérifié)

	Pour le semestre clos le	
	1er mai 1976	3 mai 1975
LES RESSOURCES FINANCIÈRES DÉCOULENT DE:		
Exploitation —		
Revenu net pour la période	\$1,353,497	\$ 478,301
Frais n'affectant pas le fonds de roulement: Amortissement	1,238,927	1,011,036
Impôts sur le revenu reportés	414,308	240,000
Total en provenance de l'exploitation ...	\$3,006,683	\$1,729,337
Emission de capital-actions	49,158	28,341
	\$3,055,841	\$1,757,678
LES RESSOURCES FINANCIÈRES ONT ÉTÉ UTILISÉES POUR:		
Dépenses en immobilisations (montant net) ..	\$3,978,723	\$1,028,448
Dividendes versés plus impôts applicables ..	708,689	704,642
Diminution de la dette à long terme	873,467	660,000
	\$5,560,879	\$2,393,090
AUGMENTATION DU FONDS DE ROULEMENT	\$2,505,038	\$ 635,412

HARDING CARPETS LIMITED

Toronto

SEMI-ANNUAL REPORT

TO SHAREHOLDERS:

The increase in sales of 39% for the six months ended April 30, 1976 is due primarily to the inclusion of Venture Carpets of Canada Ltd. which was acquired late in fiscal 1975. Nevertheless, sales exclusive of Venture Carpets were up 13%. During the second quarter demand for carpets softened and, while sales were better than a year ago, the rate of growth was slower than in the first quarter.

Net income for the six months of \$1,353,497 represents an increase of 183% over last year. It must be recognized that earnings this year include Venture Carpets and that earnings a year ago reflected seriously depressed conditions. Earnings per share were 26¢ for the six months compared to 9½¢ last year.

The installation of the new rotary printer is nearing completion and, with start-up expected by the middle of July, it will be able to contribute to sales in the fourth quarter.

Additional financing was arranged on May 12, 1976 through the private placement of \$5,500,000 Series "E" 11-3/8% 1994 sinking fund debentures.

It seems appropriate to reaffirm the concern we expressed in our first quarter report to the effect that consumer spending on durables, including carpets, has slackened somewhat from the strong demand that prevailed last fall. There is ample evidence now that the business recovery is going to be slower and more gradual than experienced from earlier recessions.

ON BEHALF OF THE BOARD,

Chairman *President*

June 4, 1976

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(unaudited)

	3 Months Ended		Change From 1975
	May 1, 1976	May 3, 1975	
SALES	\$19,313,961	\$14,207,966	35.9%
COST OF SALES	14,316,616	11,309,241	
GROSS PROFIT from Operations ..	4,997,345	2,898,725	72.4%
DEDUCT the following items:			
Selling, administrative and distribution expense	2,816,850	2,178,774	
Debtenture interest	298,084	286,251	
Other interest	325,811	92,733	
	3,440,745	2,557,758	
PROFIT before income taxes	1,556,600	340,967	356.3%
Taxes on income	664,751	144,000	
NET INCOME for period	\$ 891,849	\$ 196,967	352.3%
Earnings per share	17¢	4¢	325.0%
	6 Months Ended		Change from 1975
	May 1, 1976	May 3, 1975	
SALES	\$36,316,659	\$26,064,835	39.3%
COST OF SALES	27,147,223	20,121,352	
GROSS PROFIT from Operations ..	9,169,436	5,943,483	54.3%
DEDUCT the following items:			
Selling, administrative and distribution expense	5,627,860	4,309,991	
Debtenture interest	597,517	572,498	
Other interest	573,611	235,693	
	6,798,988	5,118,182	
PROFIT before income taxes	2,370,448	825,301	187.2%
Taxes on income	1,106,951	347,000	
NET INCOME for period	\$ 1,353,497	\$ 478,301	183.0%
Earnings per share	26¢	9½¢	173.7%

	6 Months Ended	
	May 1, 1976	May 3, 1975
FINANCIAL RESOURCES WERE PROVIDED BY		
Operations —		
Net Income for period	\$1,353,497	\$ 478,301
Charges not involving current funds:		
Depreciation	1,238,927	1,011,036
Deferred Income Taxes	414,308	240,000
Total from Operations	\$3,006,683	\$1,729,337
Issue of Capital Stock	49,158	28,341
	\$3,055,841	\$1,757,678
FINANCIAL RESOURCES WERE USED FOR		
Expenditures on Fixed Assets (Net)	\$3,978,723	\$1,028,448
Dividends Paid and Related Taxes thereon ..	708,689	704,642
Reduction in Long Term Debt	873,467	660,000
	\$5,560,879	\$2,393,090
Decrease in Working Capital	\$2,505,038	\$ 635,412

LES TAPIS



HARDING

LIMITÉE

RAPPORT SEMESTRIEL

AUX ACTIONNAIRES:

L'augmentation des ventes, à un taux de 39% pour la période de six mois qui a pris fin le 30 avril 1976, est due surtout au fait que les ventes de Venture Carpets, compagnie acquise à la fin de l'exercice 1975, sont incluses. Néanmoins les ventes, à l'exclusion de celles de Venture Carpets, ont été de 13% plus élevées. Au cours du deuxième trimestre, la demande de tapis fut moins forte et, bien que les ventes se soient avérées meilleures qu'il y a un an, le taux de croissance a été moindre que durant le premier trimestre.

Le revenu net du premier semestre, qui se monte à \$1,353,497, représente une augmentation de 183% par rapport à l'an dernier. Il faut prendre en considération cependant le fait qu'en cette année, les bénéfices avaient été influencés par les conditions économiques adverses qui prévalaient alors. Les bénéfices par action se sont chiffrés à 26¢, en comparaison de 9½¢ l'an dernier.

Le montage de la nouvelle machine d'impression rotative est presque achevé et sa mise en marche est prévue pour la mi-juillet. Cette installation contribuera sans doute à l'augmentation des ventes du quatrième trimestre.

Un financement additionnel fut effectué le 12 mai 1976 par la distribution privée de \$5,500,000 en débetures à fonds d'amortissement série E, 11-3/8%, 1994.

Nous estimons devoir réitérer un souci dont nous avons fait mention dans notre rapport du premier trimestre, c'est-à-dire que les dépenses des consommateurs en biens durables, y compris les tapis, ont été légèrement inférieures par rapport à celles de l'automne dernier. Il est clair maintenant que le rétablissement des affaires sera beaucoup plus lent que celui qui a suivi des récessions antérieures.

AU NOM DU CONSEIL D'ADMINISTRATION,

Cecil Harding

Président du Conseil

Président

Le 4 juin 1976